

A review of the Black Country economy and labour market from the PricewaterhouseCoopers West Midlands Business Surveys: 1994- 1998

by Professor Les Worrall

Working paper series September 1998

Number WP 024/98

ISSN Number ISSN 1363-6839

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Abstract

This paper updates previous research papers and looks specifically at the economy and labour market of the Black Country focusing on a set of business performance, recruitment, training and skills issues. The report also “locates” the Black Country in the context of the West Midlands Region and in the context of recent macro-economic changes which are affecting different parts of the UK economy differentially. Reference is also made to the level of innovation in the Black Country and the region and to other “structural” issues as it is contended that levels of innovation, capital expenditure and training will largely determine the future health of the sub-regional economy. Uniquely, the questionnaire is targeted towards the most senior managers in West Midlands businesses: around 60% of respondents are Chairmen, Chief Executives or Managing Directors.

Analysis of the data yields some insights into recent changes in the Black Country economy labour market viewed from the apex of a representative cross-section of around 1,000 regional businesses almost 300 of which are located in the four Black Country boroughs of Wolverhampton, Dudley, Walsall and Sandwell. This analysis can be used to augment economic and labour market intelligence derived from more traditional, nationally published sources.

This report has been based on the West Midlands Business Survey which is funded by PricewaterhouseCoopers in the Midlands. Their support is gratefully acknowledged.

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A review of the Black Country economy and labour market from the PricewaterhouseCoopers West Midlands Business Surveys: 1994-1998

1. Introduction

The PricewaterhouseCoopers West Midlands Business Survey takes a six monthly view of a wide range of business and labour market measures based on data collected from senior managers in regional businesses. The survey provides a unique insight into business performance, labour market dynamics and the impact of current and expected changes in the macro-economic climate on regional businesses.

Each survey attracts around 1,000 responses from across the region and is focused specifically on identifying the views of senior managers: it provides a view of business performance from the top of the organisational hierarchy. The majority of respondents (over 60%) are chief executives, managing directors or chairmen. Not surprisingly, given the structure of the region, the survey has a manufacturing bias with around 50% of respondents being from the manufacturing sector.

The analysis contained in this report relates specifically to the Black Country (here defined as the Wolverhampton, Sandwell, Dudley and Walsall local authority areas) and analyses the sub-region in its regional context. Analysis at the sub-regional level - rather than at the local authority level - provides robust information statistically. The analysis for the sub-region is based on over 250 responses in each of the nine surveys used (the Autumn 1994 survey and the Spring and Autumn surveys for 1995, 1996; 1997 and 1998). The surveys ask businesses for their responses to changes which have already occurred over the last six months and their expectations on various measures for the coming six months. The analysis presented here relates specifically the six month retrospective 'actual' outcomes from each survey as these are considered to give a more reliable impression of current trends in business and labour market performance.

This report will explore a wide range of topics ranging from broad measures of business performance (profitability, order book levels etc.) through to analysis of current skills shortages, training and labour market issues.

Before looking at the analysis in detail, it should be remembered that the profile of Black Country respondents differs from that of the region. In particular, while 54% of respondents in the rest of the region are in the manufacturing sector, the figure for the Black Country is rather higher at 65%. Consequently, the relative performance of the manufacturing sector - and the macro-economic conditions which affect it - will have a greater effect on the economic health of the Black Country than on the rest of the region.

2. The Black Country sub-region - measures of current business performance and business outlook

2.1 Business confidence

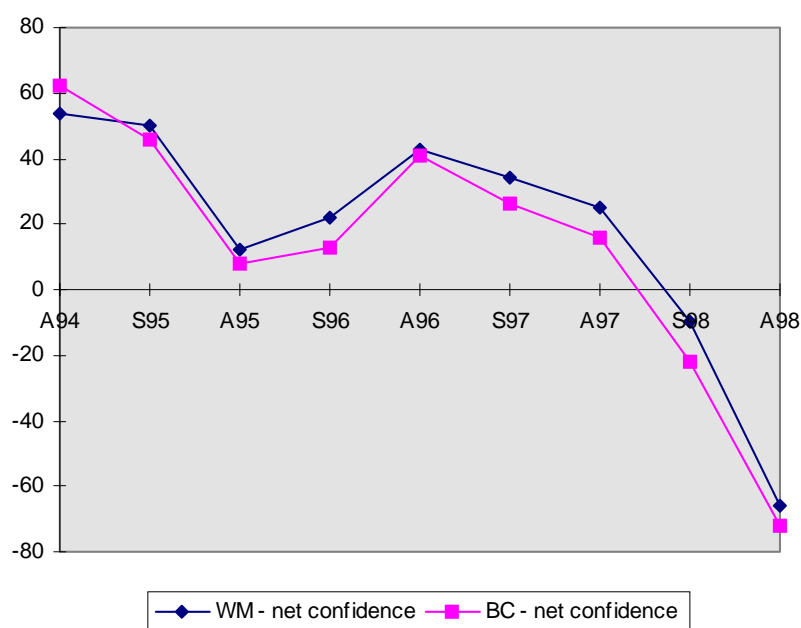
One of the most insightful - but often difficult to explain - items which emerges from the survey is a regional view of business confidence in which respondents are asked how they think business conditions will change over the next six months.

Table 1: Business confidence

Business conditions will.....	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM improve %	65	60	35	41	54	50	43	27	8
BC improve %	70	56	33	35	52	47	38	21	8
WM deteriorate %	11	10	23	19	11	16	18	37	74
BC deteriorate %	8	10	25	22	11	21	22	43	80

In autumn 1994, when exporting conditions were relatively easy, business confidence in the Black Country area - even compared to an optimistic region as a whole - was buoyant with around 70% of businesses thinking that conditions would improve over the next six months. Since then, conditions seem to have changed appreciably with a decline occurring in the autumn 1995 and spring 1996 surveys followed by a slight recovery. Since the autumn 1996 survey, there has been a consistent decline in the percentage of firms regionally and in the Black Country thinking that business conditions will improve in the coming 6 months.

Graph 1: Net business confidence: Black Country and West Midlands



From the autumn 1996 survey onwards, it is noticeable that the percentage of businesses expecting conditions to deteriorate has increased markedly to stand at 74% of regional businesses and 80% of Black Country businesses expecting conditions to get worse. This regional level of “negative” business confidence is the highest ever recorded in the history of the survey. It is also particularly noteworthy that Black Country businesses are the least optimistic of any of the 6 sub-regions which together comprise the West Midlands.

Table 2: “Negative” business confidence: a sub-regional comparison

Sub-region	% reporting worsening confidence
Black Country	80
Birmingham/Solihull	71
Coventry/Warwickshire	72
Staffordshire	73
Shropshire	70
Hereford and Worcestershire	74
West Midlands	74

Confidence in the Black Country tends to mirror that in the region but for the last four surveys confidence in the Black Country has been between 4 and 6% points below the regional level. It is clear that macro-economic trends are having a stronger effect on a sub-region that is strongly characterised by its reliance on manufacturing. This reliance on manufacturing and direct and indirect exporting is reflected in the reasons that businesses give to explain their low level of confidence.

Table 3: Which factors would improve your level of business confidence

Sub-region	Black Country	West Midlands
Devalue the £	41	34
Keep inflation low	15	19
Lower interest rates	23	25

Black Country firms see themselves as being more at risk of a strong pound than do firms in the rest of the region and the strength of feeling about devaluing the pound is somewhat higher among Black Country businesses than elsewhere. **In the region - and particularly in the Black Country - the desire for lower interest rates and a weaker pound is now much stronger than the desire to keep a low rate of inflation.**

It is interesting to note how much opinion has changed on these factors: in the august 1994 survey, when confidence was high, 44% of businesses in the region and the Black Country thought that maintaining business confidence depended on a continuing low rate of inflation. At that time, only 14% cited lower interest rates and only 2% cited a lower valued pound as the key to inflation.

2.2 Sales over the last six months

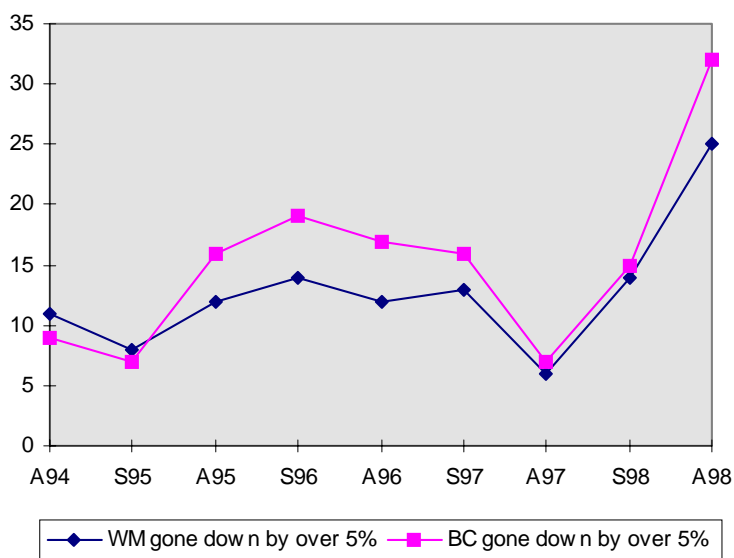
The table below shows the percentage of firms reporting that sales have grown or declined by 5% or more over the previous six months.

Table 4: Percentage of firms reporting sales growth/decline over 5%

Sales have.....	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM gone up by over 5%	60	63	42	49	45	47	37	43	35
BC gone up by over 5%	63	57	51	32	40	39	38	43	29
WM gone down by over 5%	11	8	12	14	12	13	6	14	25
BC gone down by over 5%	9	7	16	19	17	16	7	15	32

In the last two surveys, the percentages of Black Country and West Midlands firms reporting that sales had decreased by over 5% has consistently increased and now stand at the highest level in the period covered by this report. It is clear that sales performance is lower in the Black Country with 32% of firms reporting declining sales compared to 25% in the region.

Graph 2: Percentage of businesses reporting sales decline of more than 5%



The current macro-economic climate would appear to be having a more pronounced effect in the Black Country with the percentage of firms reporting sales declining by 5% or more having increased by 17 percentage points since spring 1998 compared to an increase of 11 percentage points in the region. The change in the percentage of firms reporting growing sales has been less pronounced in the Black Country than in the region as a whole.

This analysis of sales goes a considerable way towards explaining why business confidence is lower in the Black Country than in the region as a whole and raises issues about:

- the sub-regional industrial structure and its high level of sensitivity to the value of the pound and other macro-level effects;
- the high dependence of the Black Country on directly exported goods and other indirect exports through the supply chain;
- the need to reconsider the industrial development and competitiveness strategies of Black Country by seeking to move Black Country businesses forward in the value chain;
- the need to encourage Black Country firms to be more creative in how they set about “recession-proofing” or “downturn proofing” their businesses by, for example, turning fixed costs to variable costs; and,
- the need to encourage Black Country businesses to review the product markets that they are currently operating within to identify new product and market opportunities in the different niches of the same product markets or different product markets.

2.3 Export performance

In the region and the Black Country, around 10% of the firms interviewed did not export. The table below shows how the percentage of firms reporting increases or decreases of over 5% in the last six months has changed over the period.

From the autumn 1994 to the autumn 1996 surveys, under 10% of firms in the region and the Black Country reported that exports had declined by more than 5%. Since then, there has been an erosion of export growth and an increasing percentage of firms reporting that their export performance is declining. The autumn 1998 survey reveals that over 30% of Black Country firms reported that exports had declined over the previous six months. This is slightly higher than in the region as a whole and the highest level recorded in the period covered by this report.

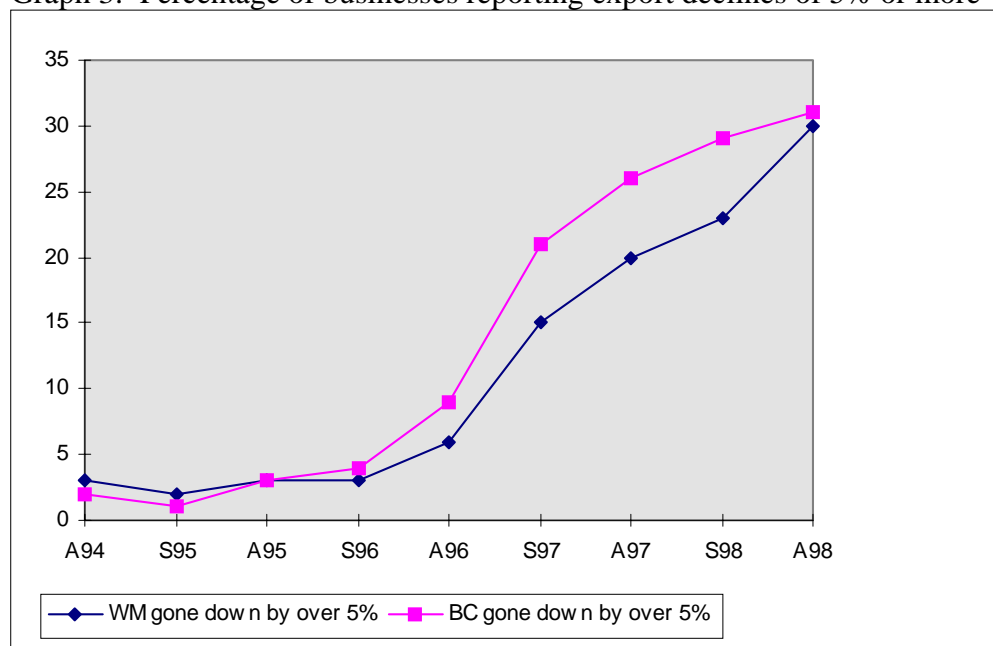
Table 5: Percentage of firms reporting export growth/decline more than 5%

Exports have.....	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM gone up by over 5%	20	23	22	18	24	20	16	16	13
BC gone up by over 5%	23	28	25	17	21	21	11	12	11
WM gone down by over 5%	3	2	3	3	6	15	20	23	30
BC gone down by over 5%	2	1	3	4	9	21	26	29	31

The analysis of declining export performance helps to explain why business confidence has declined so much over the last six months regionally and in the Black Country.

The sensitivity of sub-regional export performance to the value of the pound is understandable but the real issue here is whether lost markets will be recovered if, or when, the pound returns to a level more amenable to the expansion of the sub-region's export markets.

Graph 3: Percentage of businesses reporting export declines of 5% or more



In an increasingly globally competitive environment there are real concerns about two sets of issues:

- first, that previous exports markets may be irrecoverable; and,
- second, that West Midlands and Black Country businesses may, though innovation and product development, need to move into different markets or to reinvent their products in a higher value added form or to reduce costs through further business efficiency or to further erode their margins in order to maintain volumes.

2.4 Order books

An important determinant of a firm's level of business confidence is the current state of its order books and trends in order book growth or decline. Until spring 1996, order book growth in the region - and particularly in the Black Country - was strong. The analysis reveals that the plateau in order book growth achieved in the region and the Black Country between spring 1996 and spring 1998 has come to an end with a sharp down turn in the percentage of firms reporting that order books have increased by 5% or more.

Table 6: Firms reporting that order books have grown/declined by 5% or more

Order books.....	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM gone up by over 5%	50	53	43	38	36	39	38	37	26
BC gone up by over 5%	54	56	46	36	36	36	35	35	21
WM gone down by over 5%	7	6	13	16	12	14	14	14	26
BC gone down by over 5%	5	6	16	13	14	16	16	15	33

Clearly, the volume of work in progress is declining and capacity utilisation (both current and forecast) is in decline. It is again noticeable that the order book position in the Black Country is less favourable than that in the region as a whole: in 33% of cases, order books have declined in the Black Country compared to 26% in the region.

The analysis of order books, exports and sales reveal a marked slowdown over the 6 months prior to the autumn 1998 survey with the slowdown being more pronounced in the Black Country than in the rest of the region.

2.5 Raw material and input costs

The period since autumn 1994 has seen a massive change in the cost base of many businesses and particularly those that rely on importing raw materials.

Table 7: Firms reporting that raw material or other input costs have increased/decreased by 5% or more

Raw material and input costs have....	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM gone up by over 5%	50	69	62	42	27	25	21	20	16
BC gone up by over 5%	60	76	67	43	23	26	21	17	15
WM gone down by over 5%	1	1	1	3	6	6	13	8	8
BC gone down by over 5%	1	1	3	2	10	8	16	7	12

Until the autumn 1996 survey - when the pound was relatively weak - firms were highly likely to report that raw material costs were escalating and this was particularly prevalent in the Black Country. Since then, and with the strengthening of the pound, firms are much less likely to report that their raw material and other input costs are increasing at more than 5%. Given the appreciation of the pound since 1996, it is somewhat disappointing that more firms have not recorded significant decreases in their raw material and other input costs.

The analysis exposes two issues:

- that raw material costs are not escalating to the same extent as they did early in the period covered by this report - this may help some firms to retain competitiveness though at some risk of wider import penetration;
- that despite a much stronger pound in 1997 and 1998 compared to 1996, a majority of firms are reporting no change (or no significant declines) in their raw material and other input costs.

2.6 Selling prices

The fact that raw material costs are not rising as steeply as they were will have an impact on a firm's ability to maintain a competitive price provided that raw material costs are a significant element of total costs.

The analysis shows that West Midlands businesses are now operating in a more price sensitive environment and their ability to pass on cost increases has declined significantly since the spring 1995 to spring 1996 surveys.

Table 8: Firms reporting that selling prices have increased/decreased by 5% or more

Selling prices have.....	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM gone up by over 5%	18	30	26	18	12	16	12	10	7
BC gone up by over 5%	21	34	29	21	10	14	11	13	8
WM gone down by over 5%	4	3	3	5	7	7	7	10	14
BC gone down by over 5%	3	1	5	7	9	11	7	15	21

The two surveys conducted in 1998 have revealed a sharp slowdown in firms' willingness and ability to pass on increased costs to their customers and may also indicate that firms are taking a strategic decision to cut margins in order to maintain volumes and to hold on to footholds in markets which may be difficult to win back once lost.

The propensity of firms to squeeze their own prices would appear to be more prevalent in the Black Country - where markets are more under pressure - than in the region as a whole. While this is a sensible and expedient short-term response to unfavourable market conditions, it is unlikely that firms - indeed, a high proportion of Black Country firms - will be able to sustain this approach to keeping a foothold in markets for a protracted period.

The analysis also reveals very strongly that there is no "factory gate" driver to inflation and that in the majority of cases, factory gate prices are being held constant or being reduced. Clearly, if current trading conditions persist then firms may have to take more stringent actions which, depending on how they are geared, could ripple through into job losses or deflationary cycles.

2.7 Labour costs

The table below provides evidence to show that there is some wage inflation currently emerging in the regional economy. Despite a difficult macro-economic climate, the percentage of firms in the region reporting labour cost increases of 5% or more is showing an upward trend and, at the regional level, has trended upwards since the spring 1996 survey.

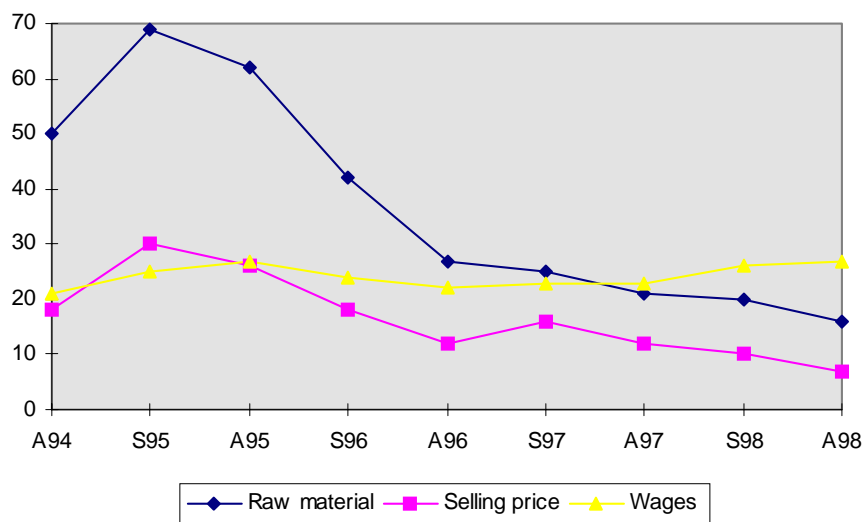
An analysis of which business sectors are driving wage increases reveals that wage conditions in manufacturing are relatively stagnant and that what wage inflation there is being driven by the construction sector and the business services sectors.

In the Black Country, reflecting more difficult trading conditions, there has been a downturn in the percentage of firms reporting wage increases of more than 5%. This goes against the regional trend and is indicative of the sub-region's heavier dependence on manufacturing.

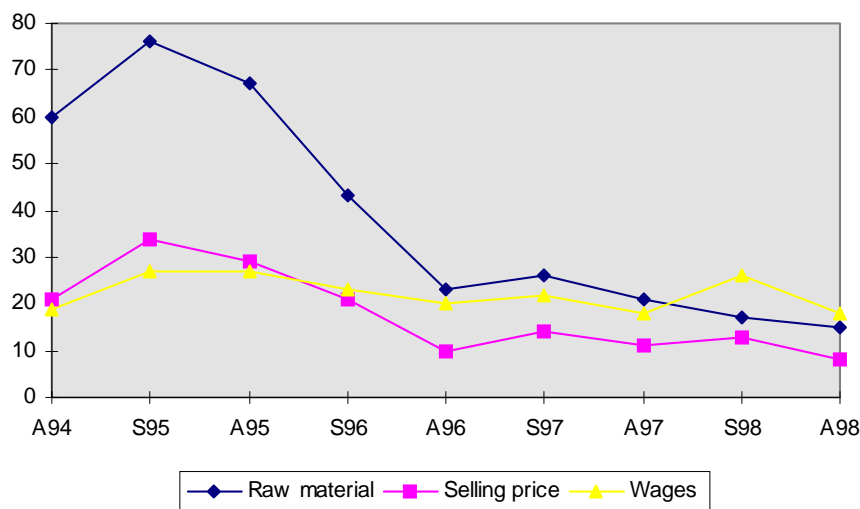
Table 9: Firms reporting that labour costs have increased/decreased by 5% or more

Wages have.....	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM gone up by over 5%	21	25	27	24	22	23	23	26	27
BC gone up by over 5%	19	27	27	23	20	22	18	26	18
WM gone down by over 5%	1	1	0	0	1	0	1	1	0
BC gone down by over 5%	2	1	0	0	3	0	2	1	2

Graph 4: West Midlands: wages, costs and prices: % reporting increases of >5%



Graph 5: Black Country: wages, costs and prices: % reporting increases of >5%



2.8 Innovation

If businesses in a region are to maintain and enhance their competitive position, they must continually seek to develop products and services which are either new to their company or are new to the market.

The table below reveals that the Black Country sub-region has a marginally lower “innovation” rate than the region as a whole perhaps indicating a degree of lack of dynamism in the sub-regional economy and over-reliance on mature markets.

Table 10: Percentage of firms with no product/service innovation in the last 6 months

Innovation	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM - no developments	43	40	44	41	44	41	43	41	45
BC - no developments	44	42	46	47	47	44	42	47	47

While 44% of Black Country businesses did not innovate at all in the autumn 1998 survey, 27% of firms said they had modified an existing product (32% in the region), 28% said they had introduced a new product to the company (30% in the region) and 16% said they had introduced a new product to the market - the highest form of innovation (16% of firms had introduced a product new to the market in the region as a whole). (Note: the figures add to more than 100% because firms can undertake more than one form of innovation).

Of some concern is the fact that firms do not seem to be trying to innovate their way out of poor trading conditions in existing markets by modifying or introducing new products and services. Black Country firms were far more likely to cite “uncertainty over interest rates” (22%) and “uncertainties of inflation” (10%) as reasons for not innovating than firms in the region as a whole (16% and 6% respectively).

It is a point of particular concern in the Black Country that uncertainties over macro-economic conditions seem to be preventing firms from engaging with risk and the introduction of new products and services which would help the sub-region to diversify into new markets or to reposition themselves in existing markets.

2.9 Profitability

Despite the considerable changes that there have been in macro-economic conditions over the period covered by this report, the percentage of firms which are in profit has been remarkably consistent and has not varied out of the range between a low of 84% and a high of 87% (at the region level). In the autumn 1998 survey, 87% of Black Country businesses were in profit - slightly higher than the 86% of businesses in the region as a whole.

The trends in *profitability growth and decline* for the Black Country and the region show that growth has faltered over the period and become more difficult particularly in the Black Country. Prior to autumn 1996, profitability growth in the Black

Country was slightly higher than in the region as a whole but since that survey there has been a reversal.

The increase in the percentage of firms with declining profitability has been pronounced in the autumn 1998 survey especially in the Black Country where the percentage of firms sustaining a drop in profitability of 5% or more increased from 19% to 32% (compared to from 17% to 25% in the region).

Table 11: Trends in business profitability

Profitability	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM - profits gone up by 5% or more	48	47	41	38	32	39	37	38	35
BC - profits gone up by 5% or more	51	50	42	39	33	30	34	32	29
WM - profits gone down by 5% or more	13	12	15	17	15	13	15	17	25
BC - profits gone down by 5% or more	11	11	18	20	21	17	20	19	32

2.10 Trends in capital expenditure

One measure of the growth potential of an economy is the extent to which firms are increasing or decreasing their capital expenditure. The trend in increasing capital expenditure has remained buoyant throughout the period covered in this report but there has been some evidence of faltering performance in both the 1998 surveys. The percentage of firms increasing their capital expenditure is currently at its lowest level in the period under consideration and has declined from the high levels sustained in the 1994, 1995 and 1996 surveys.

The percentage of firms with capital expenditure growth and decline in the Black Country are at the same levels as in the region as a whole.

Table 12: Trends in capital expenditure

Profitability	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM - increased	47	49	46	50	47	45	48	43	38
BC - increased	46	48	48	50	46	45	42	40	38
WM - decreased	11	9	12	10	11	11	9	12	17
BC - increased	11	8	11	6	11	13	9	16	17

2.11 The pattern of investment in new technology and equipment

In the region as a whole, 23% of firms did not make any investment in new technology in the six months prior to the autumn 1998 survey and this level of "inactivity" has remained roughly constant throughout the period. In the Black Country, the percentage of firms not investing in new technology was slightly higher at 24%.

Of those firms which did invest in new technology at the regional level, 78% invested in office automation (73% in the Black Country) while 43% of firms invested in new production equipment compared with 54% in the Black Country.

In the Black Country, 20% of firms had re-engineered business processes in the last year compared to 19% in the rest of the region.

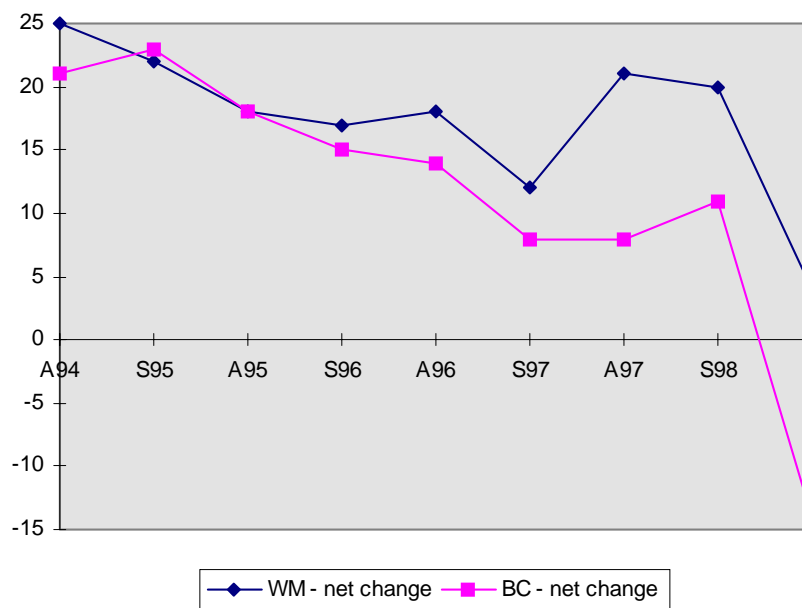
3. Employment, training and skills issues in the Black Country area

Over the last two years unemployment in the region has declined substantially and the labour market has tightened considerably. The purpose of this section is to identify current trends in employment and to examine trends in recruitment and training.

3.1 Workforce growth

The percentages of firms reporting an increasing or a decreasing workforce are shown below. The table shows that there was a period of sustained employment growth until the spring 1998 survey (at the regional level). This rough measure of employment change does, however, reveal that employment trends differ between the Black Country and the region and that the “employment health” of the Black Country has begun to deteriorate. In the autumn 1998 survey, there is still a bigger proportion of firms in the region as a whole increasing their headcounts than decreasing them but this is not the case in the Black Country. In the last survey, 21% of Black Country firms increased employment while 35% reduced their headcount.

Graph 6: Net change in employment



The adverse macro-economic conditions have begun to have an impact on the Black Country labour market. Within the region, the Black Country is the only area to report that more firms are losing workers than gaining them (-14% points): in each of

the other 5 sub-regions (Birmingham/Solihull, Coventry/Warwickshire, Staffordshire, Shropshire and Hereford and Worcester) employment change remains positive.

Table 13: Trends in workforce growth/contraction

Workforce has.....	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM increased	44	41	38	38	39	34	40	38	32
BC increased	39	43	39	36	37	30	32	30	21
WM decreased	19	19	20	21	21	22	19	18	28
BC decreased	18	20	21	21	23	22	24	19	35

3.2 Recruitment difficulties

Given that there has been a considerable tightening of the regional labour market - particularly in the earlier part of the period covered in this report - it is not surprising that there has been an increase in the percentage of firms finding it increasingly difficult to recruit and retain labour.

Table 14: Trends in the difficulty in recruiting workers

Recruitment and retention has become.....	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM much more difficult	9	12	13	11	16	17	23	22	22
BC much more difficult	10	12	13	8	16	11	19	19	17
WM slightly more difficult	19	21	23	20	27	30	29	34	24
BC slightly more difficult	17	22	25	21	28	30	33	27	24
WM - more difficult	28	33	46	31	43	47	52	56	46
BC - more difficult	27	34	38	29	44	41	52	46	41

Over the period since the first survey, there has been considerable tightening in the regional labour market with the percentage of firms reporting that recruitment had become more difficult over the previous six months doubling from 28% in autumn 1994 to 56% in spring 1998. Since the spring 1998 survey, the labour market at both the regional and Black Country levels seems to have slackened appreciably.

However, despite this slackening, 46% of firms in the region and 41% of firms in the Black Country (who have tried to recruit) have found recruiting appropriately skilled workers more difficult. While the labour market is slacker, firms are still finding recruiting the right person a difficult task.

3.3 The profile of skills shortage by skill level

The survey examines revealed difficulty in recruiting by broad skill level and this is reported in the table below for the Autumn 1998 survey. The analysis reveals that the sub-region has a particular shortage of skilled and semi-skilled.

Table 15: Current recruitment difficulty by skill for those having tried to recruit

Skill level	WM % difficulty	BC % difficulty
unskilled	17	12
semi-skilled	29	30
skilled	57	57
clerical-administrative	20	13
supervisory	14	15
managerial	25	23

The table above shows the extent to which firms which have tried to recruit different skill levels of worker have experienced difficulties. The most predominant skills shortages in the region and the Black Country are for skilled manual workers, semi-skilled manual workers and for managers which given the industrial profile of the Black Country, is likely to be a critical impediment to increasing productivity. It is very noticeable that while the current profile of skills shortages has persisted throughout the period, the shortage of skilled manual (craft) workers has become increasingly accentuated.

3.4 Expenditure on training

Trends in training expenditure are shown below. The analysis reveals that, at the regional level, over the period from the autumn 1994 survey, there was a growth and then a levelling off in the growth in training budgets until the spring 1998 survey. Between spring and autumn 1998, the growth in training budgets moved into reverse as harsher macro-economic conditions and perhaps a slacker labour market began to prevail.

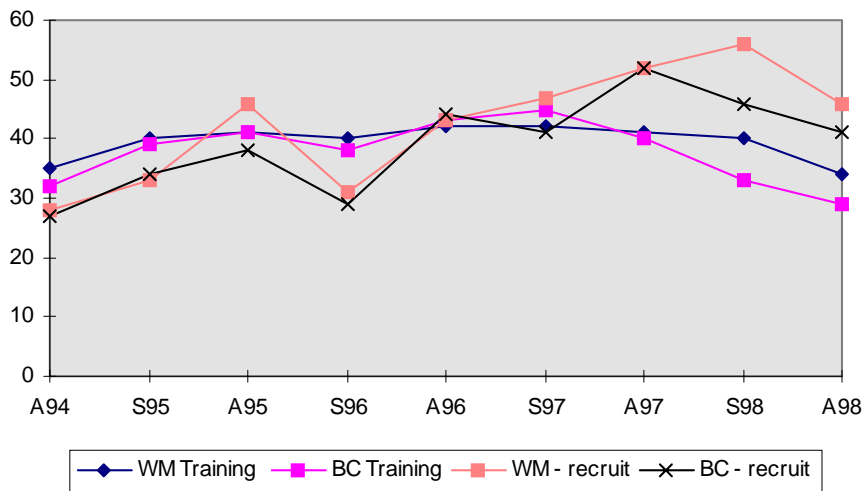
It is noticeable that the reversal in training budget growth began earlier in the Black Country with growth peaking in the autumn 1997 survey and this being followed by three surveys of declining levels of growth.

It is very apparent in the Black Country that the level of training budget growth recorded in the autumn 1998 survey is significantly below that of the peak survey of spring 1997. Perhaps there is some truth in the old phrase that “when times get hard, the first thing to get cut is the training budget”.

Table 16: Trends in training expenditure

Training expenditure	A94	S95	A95	S96	A96	S97	A97	S98	A98
WM gone up	35	40	41	40	42	42	41	40	34
BC gone up	32	39	41	38	43	45	40	33	29
WM no expenditure	10	9	9	7	9	9	9	7	9
BC no expenditure	11	8	7	5	11	8	9	9	10

Graph 7: Trends in recruitment difficulties and training budget growth



4. Summary and key issues

Business confidence in the Black Country and the region as a whole has evaporated from the very high levels experienced in the first two surveys covered in the series. From having a level of confidence somewhat above that of the region as a whole, business confidence in the Black Country is now worse than in the region as a whole. The change-around in confidence levels reflects the fact that the strong pound and high interest rates have had a bigger negative impact on the Black Country than the region as a whole because of the sub-region's industrial structure: that is, a structure which is heavily biased towards manufacturing.

Business confidence is currently worse in the black Country than elsewhere in the West Midlands with devaluing the pound being seen as the most effective way of increasing local business confidence - even at the risk of higher inflation.

The percentages of Black Country firms reporting that sales have grown by 5% or more and the percentage reporting that sales have declined by 5% or more are both appreciably worse than the regional figures. The percentage of firms reporting that sales have declined by more than 5% has more than doubled since the spring 1998 survey.

Since the spring 1996 survey, the percentage of firms with exports declining more than 5% has increased both regionally and in the Black Country. The rate of growth was significantly faster in the Black Country showing that the sub-region tends to move into recessions and downturns faster than the region as a whole (perhaps by as much as six to nine months). In the autumn 1998 survey, the rest of the region "caught up" with the level of export loss being sustained by the Black Country.

An analysis of order books shows that the present downturn is likely to persist as the percentage of businesses sustaining a decline in their order books of 5% or more has increased significantly: in fact, it more than doubled in the Black Country between the spring and autumn surveys in 1998.

There is considerable stability in raw material costs in the region and in the Black Country with only 16% and 15% of firms reporting that raw material costs had increased by 5% or more in the previous 6 months. In the black Country, 12% of firms reported that raw material costs had gone down by 5% or more (compared to 8% in the region as a whole).

There is very little evidence of cost-push - or factory gate - inflation with 21% of Black Country business reporting that they had reduced the price of their own goods by 5% or more. It would appear that firms are reducing margins and/or driving through further efficiency gains in order to remain competitive and particularly to maintain a foothold in export markets.

While there is some evidence of wage-push inflation at the regional level, this is not the case for the Black Country. Wage increases are confined to construction and the service sector with there being no wage pressure in the manufacturing sector.

While over 85% of businesses are in profit, there is clear evidence that profits are being squeezed downwards. In the Black Country, 32% of firms have reported that profits have gone down by 5% or more. This is much the highest level since august 1994 and is 6% points above the level for the region as a whole.

The labour market has slackened in the region with the Black Country labour market having slackened more than any of the other 5 sub-regions. The Black Country is the only area in the region where the percentage of firms reducing their headcounts is higher than the percentage of firms increasing them.

Despite a slackening labour market, there are still high levels of skills shortage/recruitment difficulty in the region and in the Black Country. The most severe recruitment difficulties in the black Country are for skilled manual workers, semi-skilled manual workers and managers.

Training expenditure growth among Black Country firms peaked in the spring 1997 survey and it is now edging backwards. The growth in training budgets among Black Country firms is 5% points below that in the region as a whole.

5. Discussion

The analysis reveals that the Black Country is currently having a relatively difficult time due to the prevailing macro-economic climate. A high pound and high real interests rates has reduced the demand for the sub-region's products. Sales are down, exports are down, order books are down, profitability growth is down.

What is perhaps most disconcerting is, that in the Black Country, uncertainty over exchange rates and interest rates is holding back firms from being more innovative through updating or developing new products and services.

The analysis poses a number of questions which are of direct relevance to the development of a sub-regional industrial strategy and the strategy of individual businesses:

- first, how can businesses in the Black Country be assisted in the process of recession-proofing and downturn proofing themselves by switching fixed costs to variable costs, by identifying new product markets and by reinventing their products to reposition them in different niches of the same broad market;
- second, Black Country businesses seem to be reducing profit margins in order to maintain a foothold in markets that might prove difficult - if not impossible to regain - if once lost: while this may be a necessary short-term response, it is not a strategy which is sustainable in the long-term; and,
- third, despite a slacker labour market, over 40% of businesses are having difficulty in recruiting while at the same time training budget growth is edging backwards.

The next six months are likely to prove very interesting indeed.

Copies of the PricewaterhouseCoopers West Midlands Business Survey, which is published twice a year, may be obtained from:

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or may be accessed via the internet on <http://www.wlv.ac.uk/wbs/mrc/indexpw.htm>